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FEATURED Q&A

Why Are Mexicans Dissatisfied With Peña Nieto?

Q Despite passing a number of reforms lauded by international investors, only 37 percent of Mexicans approve of President Enrique Peña Nieto's handling of the economy, and 60 percent disapprove, up 14 percent from 2013, while 67 percent expressed dissatisfaction with the way things are going in the country, according to a recent survey conducted by Pew Research. Overall, Mexicans were roughly split on whether he is a good or bad influence on the country's direction, with nearly 10 percent more describing him as a bad influence as compared to last year. What's behind Mexicans' rising dissatisfaction with the Peña Nieto administration and the direction of the country? What issues has the administration addressed well, and where could it improve?

A Jorge Buendía, director of Buendía & Laredo: "President Peña Nieto has been highly successful in building political coalitions to pass his reforms while at the same time resisting the pressures of the powers that be. He has proved to be a patient reformer as he has been willing to pay the political costs of his reforms. Why has a new, reformist president become unpopular? The answer seems to lie in the divorce between the bright future painted by his reforms and the somber reality of the Mexican economy. Insofar as expectations are driven by current experiences, the lack of support for some of the reforms could be due to today's poor economic performance and recent price and tax increases. We can actually explain President Peña Nieto's approval level by the consumer confidence index: as it goes down so does Peña Nieto's approval. Currently the CCI is at 90.5 while one year ago it was at 98. President Peña Nieto may be more sensitive to economic conditions than other past presidents as his positioning has been built over the years around the issues of performance and delivery. If the Mexican economy does not grow, most Mexicans will believe he has

Continued on page 3

Former Director Accuses Dozens in Petrobras Case

Paulo Roberto Costa, a former director of Petrobras, has accused dozens of top politicians of involvement in an alleged kickback scheme at the Brazilian state-run oil company. Costa is currently jailed in connection with the case. See story on page 2.

File Photo: Brazilian Government.

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NEWS BRIEFS

Police, Protesters Clash During March in Chilean Capital

Police and protestors clashed at a demonstration Sunday in which thousands of Chileans marched through Santiago in remembrance of those who disappeared during military rule that lasted from 1973 to 1990, BBC News reported. The march was peaceful, but a few hooded protestors threw stones and petrol bombs at police after the march and injured four journalists. Sept. 11 marks the anniversary of the 1973 coup that brought Gen. Augusto Pinochet to power.

Colombia's Inflation Rate Accelerates

Increasing costs of housing and food in August drove Colombia's rate of inflation to its highest point since 2012, the government's statistics agency said Friday, Bloomberg News reported. Consumer prices rose last month by 3.02 percent as compared to a year earlier. That figure marked the end of below-target inflation that had lasted for 22 months.

Economist Questions Venezuela's Move to Continue Debt Servicing

Venezuela, which is billions of dollars behind in paying importers, a situation that is driving shortages in the country, has been able to keep paying its foreign bonds because of the "massive default on the country's import chain," former Venezuelan planning minister and current director of the Center for International Development at Harvard University Ricardo Hausmann told Bloomberg News, the news service reported today. While Hausmann would not say he was recommending a default, he said that "normally governments declare that they have an inability to pay way before this point."

Political News

Former Director Accuses Dozens in Petrobras Scandal

A former director of Brazilian state-run oil company **Petrobras** has accused more than 40 politicians in connection with an alleged corruption scheme. Paulo Roberto Costa, who is currently in jail and is being investigated in the case, leveled accusations against a cabinet minister, top members of Congress and governors, news magazine *Veja* reported Saturday. On Saturday, *Veja* printed the names of people accused, including former governor and presidential candidate Eduardo Campos, who was killed last month in a plane crash, as well as Energy and Mines Minister Edison Lobão, and the presidents of both houses of Congress, Reuters reported. The people accused purportedly received 3 percent kickbacks from Petrobras' contracts with third parties from 2004 to 2012, Veja reported. The president of Congress' lower house, Henrique Eduardo Alves, issued a statement denying wrongdoing as did Senate President Renan Calheiros. A representative for Lobão said he did not yet have a comment, and Petrobras officials were not immediately available to comment, Reuters reported. The allegations came just four weeks before the first round of Brazil's presidential election in which President Dilma Rousseff is vying for another term, attempting to fend off challenges from Aécio Neves of the Brazilian Social Democracy Party and Marina Silva of the Brazilian Socialist Party. "I assure you I will take the necessary action. But I will not act based on speculation, I want the details," Rousseff told reporters on Saturday, Reuters reported. Rousseff's secretary general said the allegations amount to an attempt to alter the results of next month's election, Bloomberg News reported. Costa's accusations are being used "to try, somewhat desperately, to change the course of the campaign," Secretary General Gilberto Carvalho said in an interview broadcast on news channel G1's Web site.

> "I assure you I will take the necessary action. But I will not act based on speculation, I want the details."
>
> *— Dilma Rousseff*

El Salvador's Flores Surrenders to Face Corruption Charges

Former Salvadoran President Francisco Flores, who has been wanted for months on corruption charges, on Friday turned himself in to authorities. Flores, who was president of the Central American country from 1999 to 2004, is accused of misappropriating $15 million in donations from Taiwan's government while he was in office, Agence France-Presse reported. Flores has denied the charges, saying they are politically motivated. "I have given myself over to the court voluntarily and out of respect for the law," Flores said after surrendering to a judge in San Salvador, BBC News reported. A warrant for Flores' arrest was issued on May 6, and Interpol had issued an alert to notify foreign authorities that Flores was wanted in El Salvador, AFP reported. "He's been read his rights, the crimes of which he's accused and the reason for his arrest," said court spokesman Ulises Marinero, the wire service reported. "Prosecutors and the court now will determine to which prison ex-President Flores will be sent." In images broadcast on a local television station, Flores was seen dressed in a suit, calmly sitting in the courtroom of Judge Levis Orellana. Flores faces charges of corruption, illegal enrichment and disobeying a summons to appear in court. Last October, then-Salvadoran President Mauricio Funes made public U.S. Treasury reports that showed questionable transactions that were made from Taiwan to Flores in 2003 and 2004. Flores has said that he asked

Flores

File Photo: Salvadoran Government.

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Taiwan for donations three times, once for reconstruction efforts after a pair of devastating earthquakes in 2001, a second time for help in fighting drug trafficking and a third time to battle gangs and crime. Investigators have been probing suspicious transfers into Flores' bank accounts.

Company News

L'Oreal Agrees to Buy Brazil's Niely Cosméticos

Paris-based **L'Oreal**, the world's largest maker of cosmetics, has agreed to purchase Brazil's **Niely Cosméticos**, Bloomberg News reported. L'Oreal, which has spent in excess of $5 billion this year on deals, did not disclose the sum it will pay for Niely. The Brazilian company has an "excellent position and high penetration" among middle-class Brazilians, which "will positively complement the products offered by our consumer products division," Didier Tisserand, the president of L'Oreal's Brazil unit, said in a statement. Daniel Fonseca de Jesús, who

L'Oreal has spent more than $5 billion this year on deals.

founded Niely in 1981, will become vice president of L'Oreal Brazil's strategic committee. L'Oreal said in July that it plans more acquisitions as its consumer products operation, its largest division, has experienced weak gains. The more than $5 billion that the French company has spent this year includes the buyback of 8 percent of its stock from **Nestlé** and the purchase of facial mask producer **Magic Holdings International** and the **Decléor** and **Carita** spa brands. Latin America contributed more than 8 percent of L'Oreal's revenue, and the company wants to add 50 million new Brazilian customers by 2020.

Featured Q&A

Continued from page 1

done a poor job. One thing President Peña Nieto could have done better would have been to criticize the status quo more forcefully, especially as his party was out of office for 12 years. If you want to push a reformist agenda, you have first to convince people of the need to do it. Rather than embrace Lázaro Cárdenas as he did, President Peña Nieto should have denounced all that is wrong with the Mexican oil industry."

A Pamela K. Starr, director of the U.S.-Mexico Network, associate professor of public diplomacy and international relations at the University of Southern California and senior advisor for ManattJones Global Strategies: "Despite being lauded abroad for ushering in profound economic reforms after years of legislative stalemate, for Mexicans the achievements of President Enrique Peña Nieto seem much less impressive. Mexicans see a president whose administration has tunnel vision, focused almost exclusively on a bunch of reforms that they suspect will once again benefit the rich at the expense of everyone else. This attitude is reinforced by the reforms' lack of impact on the daily lives of Mexicans thus far, and in the case of energy reform, by majority opposition to one of its central features—permitting foreign investment in energy production. Meanwhile, the top two concerns of Mexican citizens—the economy and security—seem to have been neglected. Since Peña Nieto took office in December 2012, economic growth has been anemic, the security situation seems not to have improved, and the public sees an administration seemingly without a solution to either problem. That said, the president's poll numbers finally seem poised for a rebound—indeed, the administration is counting on this—in the coming months as 1) the telecommunications reform forces down long-distance rates in 2015, and the virtual elimination of interconnection rates ideally filters down into lower cell phone fees, 2) increased infrastructure spending—including a new Mexico City international airport—feeds economic growth, 3) reduced uncertainty encourages renewed private business investment, and 4) the security situation, hopefully, improves enough for Mexicans to feel the difference."

A George W. Grayson, Class of 1938 Professor of Government Emeritus at the College of William & Mary in Williamsburg, Va.: "Several factors impelled Peña Nieto's sagging approval ratings: anemic first-quarter growth, feeble job creation and fiscal policies. The last item entails higher taxes, limits on deductions and electronic collections that represent a nightmare for small businesses. Extortion, kidnappings and other

> "Several factors impelled Peña Nieto's sagging approval ratings: anemic first-quarter growth, feeble job creation and fiscal policies."
>
> *— George W. Grayson*

criminality also hurt his popularity, especially in violence-prone states like Tamaulipas, Morelos, Michoacán and Guerrero. Meanwhile, toxic nationalists lambast the ambitious opening of the energy sector to private parties. Still, the president and Finance Minister Luis Videgaray exude optimism. They are priming the pump for an economic rebound in 2015, well before the midterm elections. Thanks to a fat treasury, they can funnel ever-more payola to the 20 'new PRI' governors in hopes of expanding their numbers in Congress in these contests. Success would give momentum to retaining Los Pinos in 2018. Videgaray, Gobernación Secretary Miguel Osorio Chong and party president César Camacho, among others, have their eyes on this prize. Yet, ambitious state executives abound. Just as privates

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Featured Q&A

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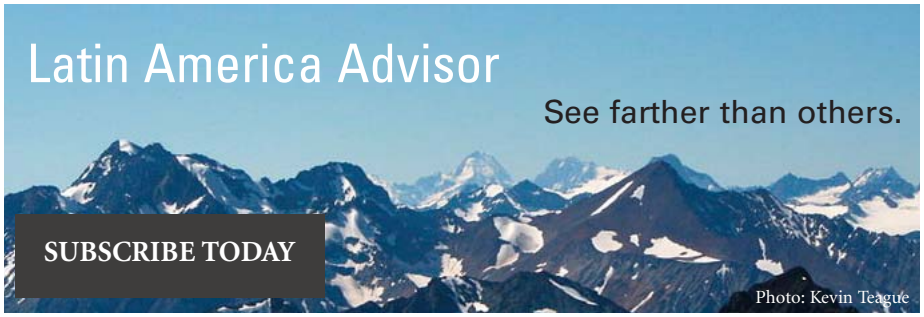
in Napoleon's army were said to stuff marshals' batons in their knapsacks, governors—fortified by their own, well-oiled machines—carry presidential sashes in their briefcases. Even amid low poll numbers, the administration can pursue this Machiavellian strategy because of its ability to flood resources not only to PRI-run states but to Puebla, Chiapas and Sinaloa—where non-PRI executives have played footsie with Peña Nieto and his entourage. Above all, the opposition is fragmented: The PAN is afflicted by a nasty blood-letting between supporters of party chief Gustavo Madero and allies of ex-president Felipe Calderón; and the PRD resembles warring tribes rather than a coherent organization."

Duncan Wood, director of the Mexico Institute at the Woodrow Wilson International Center for Scholars: "Prior to the passage of Mexico's energy reform legislation, it was widely predicted that such a change would result in prolonged street demonstrations and that Mexicans simply would not tolerate any opening of the sector. During the negotiations over the constitutional reform, however, Andrés Manuel López Obrador (AMLO) and the PRD leadership tried to incite massive protests, but failed to convene more than 25,000 protestors at a time (small by comparison with the hundreds of thousands that AMLO would regularly address during the Calderón administration). This told us that Mexican public opinion, while still opposed to liberalization, was less dogmatic and more flexible than most commentators had predicted. According to a recent *Reforma* survey, there was only a 40 percent rejection rate, whereas 27 percent of those polled said they approved of the reforms, so while it is true that the public has not wholeheartedly embraced the reforms, the situation is radically different than 12 months ago, when more than 60 percent said they were opposed to an opening of the sector. So although today's low levels of public support for the president may seem like a poor reflection on the energy reform, in fact they have far more to do with the recent trajectory of the economy and the ongoing public security challenges in Mexico. The Peña Nieto government faces an uphill challenge in convincing the Mexican electorate that the nation's economy is improving, but it is precisely for that reason that the government is moving so fast with the implementation of the reforms. The government needs to get contracts signed and needs to secure Pemex's future so that the reforms are seen in a more positive light, and also so investment flows increase into Mexico. That change will begin to happen in the next 12 months, and in turn we should see government popularity increase."

> "The Peña Nieto government faces an uphill challenge in convincing the Mexican electorate that the nation's economy is improving."
>
> — *Duncan Wood*

The Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*



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